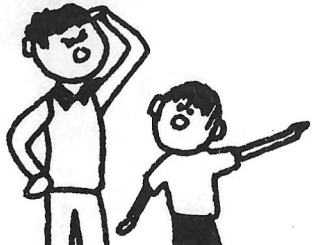
Truth in Lending

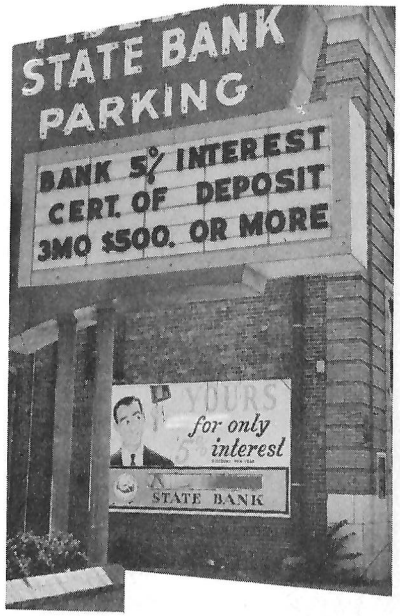
by

Richard L. D. Morse

Would you believe this bank borrows and lends at 5%

. . . and still makes a profit?





COUNCIL ON CONSUMER INFORMATION

Pamphlet Number 17

The Library
Ball State University
Muncie, Indiana

HG3755
M626

Executive Committee

Rev. Robert J. McEwen, President. Boston College, Chestnut Hill, Massachusetts.

Gordon Bivens, Vice-President. University of Wisconsin, Milwaukee, Wisconsin.

Edward J. Metzen, Executive Secretary. University of Missouri, Columbia, Missouri.

David Angevine, Treasurer. Cooperative League of U.S.A., 1012 14th Street, N.W., Washington, D.C.

Ramon P. Heimerl, Director. Colorado State College, Greeley, Colorado.

Robert Hermann, Director. Pennsylvania State University, University Park, Pennsylvania.

Irene Oppenheim, Director. New York University, New York, N. Y.

Arch W. Troelstrup, Director. Stephens College, Columbia, Missouri.

Stewart Lee, Editor of Newsletter. Geneva College, Beaver Falls, Pennsylvania.

Faith Prior, Chairman of Publications Committee. University of Vermont, Burlington, Vermont.

COUNCIL ON CONSUMER INFORMATION

A nonpartisan, nonprofit organization serving consumers through conferences, newsletters, and timely pamphlets.

Consumers Look at

TRUTH-IN-LENDING

by

DR. RICHARD L. D. MORSE

Department of Family Economics

Kansas State University
Manhattan, Kansas

COUNCIL ON CONSUMER INFORMATION

Pamphlet Number 17

BEP

CONSUMER CREDIT SERIES

#16 Shopping for Credit

#17 Truth-in-Lending

#18 Consumer Credit Computations

© 1966 Richard L. D. Morse

Rates

Single Copy	50¢ each
3 to 9 Copies	45¢ each
10 to 99 Copies	40¢ each
100 or more Copies	35¢ each

Available from:

Council on Consumer Information
15 Gwynn Hall
University of Missouri
Columbia, Missouri 65201

FOREWARD

The pamphlet bears the same title as legislation proposed by Senator Paul Douglas--"Truth in Lending." The title was selected to underscore the need for standardization of terms used in the disclosure of credit costs and rates.

A major part of the discussion is related to two documents: The Douglas bill (S.750) and the First Report of the Consumer Advisory Council. Both are concerned with credit cost and rate disclosure.

The focus is on the principles involved. They are of general significance and should be of help in evaluating future proposals whether made to the Congress or state legislatures for advancing the consumer's right to information needed for the prudent use of credit.

The other two pamphlets in this series compliment and support the positions taken in this pamphlet. As a unit they present the author's treatment of consumer credit from the consumer's point of view.

Richard L. D. Morse
December 1, 1966

Consumers Look at

TRUTH-IN-LENDING

PAGE

Foreward i

The Right to Know--What? 1
Information Needed. 1
Information Influences Decisions. 4
Information Available 8

Proposals for Full Disclosure of Credit Terms. .11
Contract or Fixed Credit. 13
Revolving or Open-End Credit. 17
Inconsistencies in Present Practices .21

Time-Price v.s. Interest 28

Dollars or Rates? Quote The Most Attractive . .32

Summary 37

References 39

Appendix A - DoD Directive 41

The Right to Know--What?

What facts does a consumer need to make intelligent credit decisions? Differences in opinion on this issue are manifested not only in positions taken regarding what facts should be required by law to be disclosed to credit consumers, but also what constitutes the subject matter of consumer credit education.

Do consumers need to know the rate of charge? Or, is the dollar cost sufficient? If the consumer should know the rate, how should it be expressed? Should the rate be a nominal annual percentage rate on the actual amount of credit used, or the dollars per year per hundred dollars for the amount originally financed?

Information Needed

A consumer's need for information depends on:

> Whether the consumer wants to select the best of credit alternatives, and
>
> The circumstances confronted at decision-making time.

If the consumer wishes to secure the credit he needs at least cost, and if the credit grantor who can meet his needs is to get his business, what are the basic questions a responsible consumer should ask?

1. How much more am I willing to pay to have the goods or services now rather than buying for cash later? To answer this question I must know

The Library
Ball State University
Muncie, Indiana

the difference in dollar cost. Willingness to buy now and pay later depends on answers to two related questions:

a. How much income will I lose if I do not buy now? An estimate of the number of dollars of anticipated income-loss resulting from postponement of the purchase gives a minimum estimate of the dollar amount I can afford to pay for credit. For example, an unemployed person short on cash would be foolish not to buy a car on credit if a good paying position requiring a car were offered. (Properly, such decisions require computing the present value of the anticipated loss of income to compare with the present value of dollars to be paid) Computations of present value are discussed in Pamphlet No. 18.

b. How much will other costs increase if I delay buying now? For example, even though I may be short on cash, I cannot afford not to incur credit costs for repairs now if delay could mean even greater cost later. Note also that if time is an important factor, then again the present values must be computed for valid comparisons. Comparisons in terms of dollars reveal the least cost alternative. Dollar terms are needed information for the consumer deciding to buy now or later and to pay now or later.

2. Can I handle the financing? Can I make the down payment and meet the other payments as they come due? Dollars down and dollars per period is information the consumer needs to know to determine whether the credit repayment terms are consistent with the family's present and future financial status.

3. Do I know the alternatives open to me should I become unable to pay or if other financial alternatives arise? The dollar cost of deviating from contract terms, that is, penalty for premature payments or delay in payments should be considered by the consumer before signing. For example, is a 5 1/2% loan with the right to pay off the loan at any time without penalty preferable to a 5 1/4% loan with a penalty for early payment?

4. Is this the cheapest source of credit? Dollar costs, when related to the amount of credit and the time it is used, so that it is stated as a percent per annum, offers the simplest and least confusing basis for comparison. This procedure of comparing rates is commonly accepted in reviewing alternative investments. In both situations the rate comparison must be interpreted with due regard to the actual situation.

Thus, the informed consumer needs to know:

- What credit costs are, so the service can be priced against other services and goods the consumers may need.
- The amount and time of payments, so consumers can be sure the obligations can be met.
- The terms of the contract, so consumers can anticipate the cost of making adjustments.
- What the credit rate is in terms of nominal annual rate, so equally suitable funds bearing a lower rental cost may be used if available.

Information Influences Decisions

At the 1961 Senate hearings, Senators Bennett, Bush, Proxmire, Douglas and a layman participated in a "game" in which alternative credit situations were presented.

Five pairs of instalment credit terms for the purchase of a $3,000 car were presented with the quality of information increased by steps. They were to choose the better of each pair of terms. The first set of information shown was that given in a typical advertisement: $ down and $ a month. After a choice was made on this basis, the number of monthly payments was shown, and requiring another decision. Next they were given the dollar cost, and finally, full disclosure was made by showing the annual rate. If you wish to play this game, immediately cover the table on the next page with a blank paper. Use it as a ballot to record your decisions for each set of information. Fold it over to reveal a new column of information and mark your ballot again for the new set of choices.

The purposes of the game were: (1) to test whether consumers, as they are advanced more information:

> Change their decisions as to the better alternative.
>
> Become more confident they have made the proper decision.

and (2) to demonstrate that full disclosure will not result in conformity because consumers base their decisions on their own financial circumstances.

The test proved successful. A complete transcript of the game as it was played appears in the Hearings and makes delightful reading. (8, pp. 304-322, 1085-6).

The game is reproduced on the next two pages. If you wish to play it, fold this page back only far enough to show Column I (the third column from the right) on page 7. Record your choices in Column I on page 6. Next, reveal Column II information, and record, etc.

The variety of reasons given for the different choices bears emphasizing. Some based their choice on the amount of down payment--either because they lacked the higher amount or intuitively "felt" a higher down payment would mean lower cost. The size of the monthly payment was a major factor for those who knew the maximum their budget would allow. Some preferred shorter term loans so as not to be obligated for a long period or felt that a shorter loan should cost less. The total dollar cost was a major concern to many, but only if the down payment and monthly payment was within reach did they have a choice. And the rate influenced others, especially those who had misjudged the actual rate in the absence of full disclosure.

Abbreviations for these reasons appear in code at the bottom left of page 7: HD, for highest down payment; LMP, for lowest monthly payment; ST for shortest time; LC for lowest cost; and LR for lowest rate.

The ideal credit contract would be low-rate, low-cost, short-term, low monthly payments, and low down payment. Unfortunately, such convenient terms are not available, and so choices must be made. The best compromise depends largely on the individual's financial situation; the best choice is influenced by the quality of information available.

	I	II	III	IV
Circle the number of X's to show how confident you feel about your answer. not sure X fairly sure XX very sure XXX	Which of each pair is the better financial deal? (check)	Now you know the number of months, check your choice, circle your degree of confidence	Now you know the total credit cost, check your choice, circle your confidence	Now you know the rate of charge, check your choice, circle your confidence
X X X (circle)	☐ ☐	☐ ☐ X X X	☐ ☐ X X X	☐ ☐ X X X
X X X (circle)	☐ ☐	☐ ☐ X X X	☐ ☐ X X X	☐ ☐ X X X
X X X (circle)	☐ ☐	☐ ☐ X X X	☐ ☐ X X X	☐ ☐ X X X
X X X (circle)	☐ ☐	☐ ☐ X X X	☐ ☐ X X X	☐ ☐ X X X
X X X (circle)	☐ ☐	☐ ☐ X X X	☐ ☐ X X X	☐ ☐ X X X
	I	II	III	IV
	Fold on line ←	Fold again ←	Fold again ←	Thank you. Any comments?

You are interested in a $3,000 car and are given the following pairs of financial terms:

Finance charges as approx. rate per annum on unpaid balance	IV	III Total Finance Charges	II Number of Months	I Payments Per Month	Down Payment	Cash price $3,000
19.2%		$300.00	24	$75.00	$1,500.	Which is
11.6%		$300.00	30	$76.67	$1,000.	the better?
18.5%		150.00	12	137.50	1,500.	Which is
12.9%		140.00	12	178.33	1,000.	the better?
9.7%		250.00	30	75.00	1,000.	Which is
19.2%		300.00	24	75.00	1,500.	the better?
9.6%		200.00	24	91.67	1,000.	Which is
18.5%		200.00	12	183.33	1,000.	the better?
13.3%		210.00	18	122.78	1,000.	Which is
13.4%		280.00	24	95.00	1,000.	the better?
Criteria	IV	III	II	I		
HD						
LMP						
ST						
LC						
LR						

Information Available

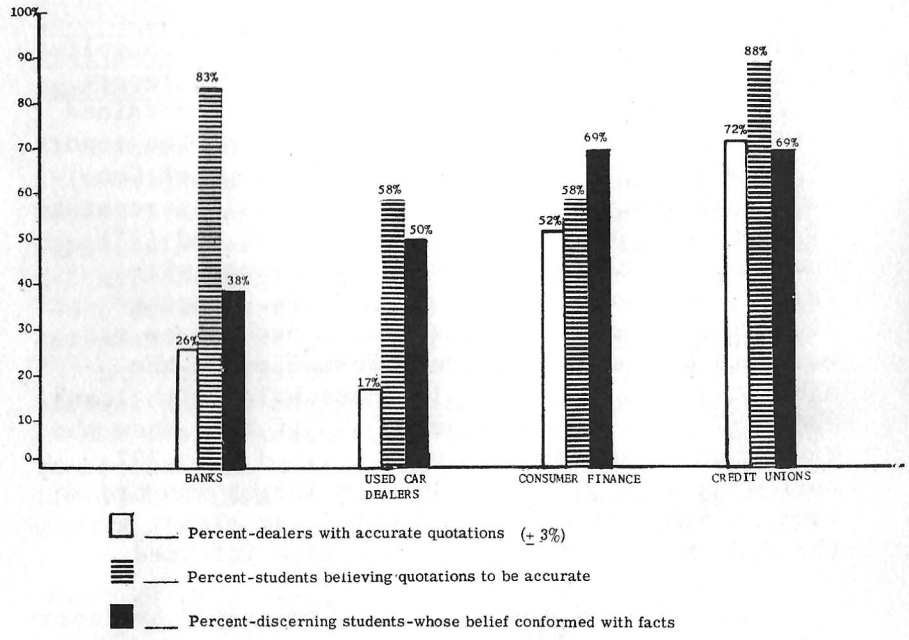
In recognition of the consumers' need to know both the dollar cost and the nominal annual rate equivalent, educational material has been made available. The Cooperative Extension Services of many states have prepared materials to help consumers figure credit costs and rates. Usually included is the constant ratio formula for computing the annual rate often referred to as the "true" or "simple" annual rate. Also, commonly used text books introduce this formula. Such books are written for use by students and student teachers of family finance.

The Bowery Savings Bank, the Credit Union National Association, and the Michigan Agricultural Extension Service have developed slide rules, disks or charts for estimating the annual rate. The Household Finance Corporation for many years published an attractive Consumer Credit Cost Calculator which they described as: "An accurate and simple aid in the comparison of charges on instalment loans and purchases". It emphasized: "The price you pay for credit always can be measured by the true rate of interest you are charged." (11, p. 1417)

The California Consumer Counsel developed an attractive folder "Credit Costs Money" which relates the various ways of quoting charges to the annual rate. This has been reprinted by the Missouri and Delaware Cooperative Extension Services. The U. S. Department of Agriculture's Consumer Cost Credit Guide," which has become the U. S. Government Printing Office's second best seller, also uses California table.

Yet educational materials are often unavailable to consumers as they shop for credit. In the consumer-credit market place, where the consumer

makes credit decisions, reliable information needed for intelligent shopping cannot be secured from the credit grantor. Morse and Courter reported that only 26% of the banks, 17% of the used car dealers, 52% of the consumer finance companies and 72% of the credit unions quoted a percentage rate within an accuracy range of six percentage points. (6, pp. 119-124)



Perhaps equally as serious as the inaccuracy of these quotations is the inability of consumers to recognize mis-quotations. The chart shows that the proportion of students believing quotations to be correct was highest for credit unions (88%) and banks (83%). They based their judgment primarily on faith and trust. As a result only 38% correctly

identified the accuracy of bank quotations, 50% the accuracy of the used car dealers' quotations, and 69% those of consumer finance companies and credit unions.

A summary study of the accuracy of consumer credit quotations over a period of five years in Kansas confirmed the habitual tendency for the rate of charge to be understated (13). Since Kansas credit laws are similar to those in many other states, similar misleading quotations undoubtedly prevail elsewhere. Confirming evidence is supplied by a National Bureau of Economic Research report by Juster and Shay (4). Their data were obtained from a sample of Consumer Union members; the report is summarized in the October, 1964 issue of Consumer Reports (2, p. 505). Only a small percentage of households using credit (between 5% and 11%) knew the finance rates they paid. Those with larger loans were more knowledgeable. Another significant observation is that a much lower rate was paid by those who were informed as to the accurate rate. For example, households with loans under $500 paid an average of 12% if they knew the rate, but those who were not informed paid 37%. Borrowers with loans of $2000 or larger who had no rate information paid 13.7% which was almost twice the 7.2% rate paid by those who were informed.

The informed are evidently "rewarded" by lower rate financing. Why, then, it may be asked, are not more consumers informed? Is the cost of becoming informed so high that it is more efficient to remain uninformed and pay higher charges? For those of low mental-mathematical ability, the cost obviously would be prohibitive. Even among students at the college level of education the cost seems prohibitively high and the results disappointing. For example after four hours of university instruction with an excellent textbook and teacher,

fortified by personal involvement in a credit situation, only 38% of the students correctly identified the accuracy of bank quotations within 6 percentage points.* (See chart on p. 9) One must conclude that educational efforts alone to develop the proficiency needed among credit shoppers would cost millions of dollars and still fall short of meeting the needs of the less educable.

There is, however, a solution. In view of this evidence that the cost of an effective educational program would likely exceed any reasonable expectation of tax support, the cost to the shopper can be made negligible by legislation to require that those "in the know" should state it. If the consumers' right to be informed is implemented through full disclosure of terms, then the credit shopper can be as easily and economically informed of the credit rate on his loan to buy a car as he is of the rate he pays on the gasoline used to run it--or the loss of interest earnings on savings withdrawn to pay cash for the car.

Proposals for Full Disclosure of Credit Terms

If credit terms are to be disclosed consistently and meaningfully, agreement must be reached as to what constitutes full disclosure. Two proposals for national standards were current in 1964.

The Consumer Advisory Council, established under the Council of Economic Advisors, set forth in its First Report in October, 1963, its recommendations to the Kennedy Administration. (2, pp. 13-17, 62-64) Its detailed statement on full disclosure of credit is reprinted in the comparison which follows on pages 14 and 18.

Senator Paul H. Douglas, in 1960, introduced the Consumer Credit Labeling Bill, S. 2755, in the 86th Congress (7), the Truth-in-Lending Bill, S. 1740 in the 87th Congress (8, 9), and again in the 88th Congress as S. 750 (10, 11).* Hearings on these bills number 4, 378 pages and provide a wealth of resource material. The text of S. 750 is reprinted on pages 15 and 19 for direct comparison with the Consumer Advisory Council recommendations.

These are presented, not for the purpose of promoting either proposal, but to sharpen the focus on their relative merits. They involve basic issues which will appear in legislation likely to be considered by various state legislatures, the U. S. Congress, and the National Conference of Commissioners on Uniform State Laws' Special Committee on Retail Instalment Sales, Consumer Credit, Small Loans and Usury.

*In the 89th Congress (July 12, 1965) Senator Douglas introduced S. 2275 which did not differ significantly from S. 750. (See pp. 15, 19).

The comparison is in two parts. This is in recognition of the two distinctly different types of credit:

- Contract or fixed credit
- Revolving or open-end credit

Contract Credit

Contract credit is a form of credit based on the assumption that both parties know the terms of the contract fixing the amount and time of payment before completing the agreement.

The Council recommendations are comparable to Section 4 (a) of the Douglas "Truth-In-Lending" Bill, S. 750. They deal only with credit cost disclosure in both dollars and rate. Neither deals with the many other factors associated with credit. However, Section (e) of the CAC recommendations does go a step beyond the Douglas Bill regarding information to be disclosed.

A significant difference is the word "nominal" introduced by the CAC. This mitigates the confusion with "true", "effective", "simple", or "real" rates. "The nominal interest rate is the quoted annual rate which does not take into account that interest is compounded at intervals throughout the year". The magnitude of the difference between the nominal and effective rate is discussed in Pamphlet No. 18.

Even the words "nominal" and "simple" can be eliminated by use of a periodic rate. Each creditor designates a base time period, such as a month, appropriate to his instalment contract. Then the ratio of the finance charge to the unpaid balance for the interval of time in the base time

Consumer Advisory Council Recommendation - Contract Credit

1. "When credit is extended on the basis of separate contracts, each contract shall include:

a. an itemization of the cash or delivered prices of goods and services purchased, and all additional charges assessed against the debtor in connection with the transaction,

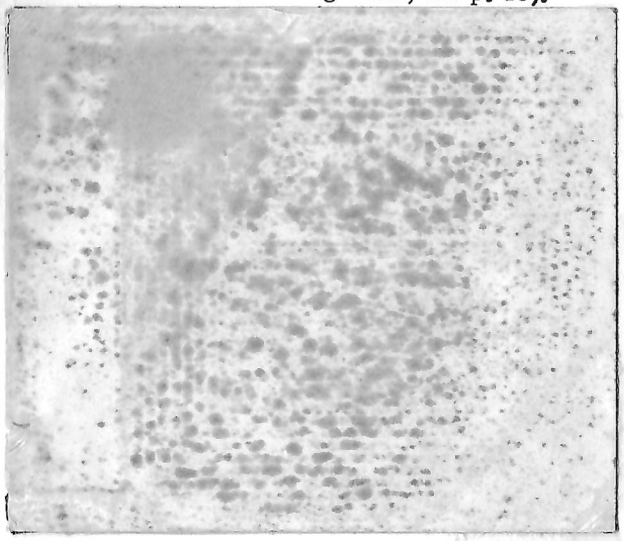
b. the terms of payment (including down payment, amount to be financed, amounts and times of payments needed to retire the obligation),

c. the rate at which the finance charge is to be imposed on the amount financed, such rate to be in standardized terms so as to be directly comparable with rates (a simple annual nominal percentage rate) that banks, savings and loan associations, credit unions, and postal savings use to disclose earnings on money saved,

d. the cost of such credit services, expressed in dollars and cents, and

e. the terms of credits or charges imposed in the event of advanced or delayed payments from the contract terms; and"

. . .(Next section concerns revolving credit, see p. 18).



Comparable sub-sections of S.5 - Contract Credit
90th Congress

Section 4. (a) Except as provided in subsection (b), any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and ascertainable and in accordance with rules and regulations prescribed by the Board, the following information —

(1) the cash price or delivered price of the property or service to be acquired;

(2) the amounts, if any, to be credited as downpayment and/or trade-in;

(3) the difference between the amounts set forth under clauses (1) and (2);

(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;

(5) the total amount to be financed; (the sum of the amounts set forth under (3) and (4), above);

(6) the finance charge in dollars and cents;

(7) the finance charge expressed as an annual percentage rate to be computed as set forth in section 3 (5);

(8) the time and amount of payments scheduled to repay the indebtedness; and

(9) the terms applicable in the event of advanced or delayed payments from those specified in (8) above.

Section 3. As used in this Act, the term —

. . . . . .

(5) "Annual percentage rate" means the percentage rate per period expressed as a percent per annum. It shall be computed by multiplying the percentage rate per period by the number of periods per year.

(6) "Percentage rate per period" means the percentage ratio of the finance charge for the period for which the charge is made to the unpaid balance of the total amount to be financed.

(7) "Period" means the time interval between the payments specified in the credit agreement for repayment of the total amount to be financed.

. . . . . .

Insert - Between Pages 14 and 15

Consu

1. "W
co
a
se
d
b
fi
ol
c
a
d
ra
p
d
a
e
o

Comparable sub-sections of S. 750 - Contract Credit
88th Congress

Section 4. (a) Except as provided in subsection (b), any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extend applicable[1] and in accordance with rules and regulations perscribed by the Board, the following information-

(1) the cash price or delivered price of the property or service to be acquired;

(2) the amounts, if any, to be credited as down payment and/or trade-in;

(3) the difference between the amounts set forth under clauses (1) and (2);

(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;

(5) the total amount to be financed;

(6) the finance charge expressed in terms of dollars and cents; and

(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate[2] on the average outstanding unpaid balance of the obligations.

---

[1] S. 2275 inserts: "and ascertainable"

[2] S. 2275 completes the sentence by substituting the following: "on the periodic unpaid balance of the obligation"

period becomes the periodic rate. Since various creditors will designate various base time periods, the result will be a variety of periodic rates. These variations can be uniformly expressed as an annual percentage rate by multiplying each periodic rate by the number of periods in one year. This is essentially the procedure recommended by the CAC for revolving credit and is extended to all consumer credit.

The creditor is allowed to select his own base period - day, week, month, year - or some other interval. If the scheduled payments are regular as to amount and time, tables are readily available for figuring the dollar cost, given the rate; or for figuring the rate, given the dollar cost. So this presents no problem which the industry is not prepared to handle. However, if the payments scheduled are irregular as to the time and amount, it would be difficult to figure the periodic rate from the total finance charge, so he would take the alternate route of starting with the periodic rate and applying it to the scheduled payments and derive therefrom the dollar finance charge.

Also, if a mixed rate is employed so that one rate is applicable for balances up to so many dollars, above which another rate is applicable, the management would be faced with figuring the scheduled payments and charges to arrive at the total dollar cost. The problem is to figure a blend of this rate mixture. As pointed out in Pamphlet No. 18, a common practice is to employ the "rule of 78ths", however the true rate is also obtainable with the use of annuity tables. Although the computation of this blended annual rate may seem burdensome to the creditor who uses a mixed rate, the consumer would find this task not merely burdensome, but impossible.

Revolving Credit

The second portion of the statement pertains to the flexible forms of credit in which the terms of repayment are not fixed and neither party can anticipate exactly the amount and time of credit usage.

In essence, this means that consumers should know before entering any such arrangement what annual rate of charges will be imposed and how it will be imposed. And, after the agreement is in operation, it provides that the creditor should be advised with each billing not only of the activity of the account (that is, the purchases charged, items returned and payments made on the account), but also the amount of credit charges imposed, the rate at which they were figured, and the balance on which the rate was applied.

Prevailing practice has been to charge a periodic rate of 1 1/2 percent per month. Since there are 12 months in the year, the "simple annual nominal percentage rate" would be 18%. The requirement would be that the balance to which this annual rate is applied should be designated and the total charges stated. Many credit grantors could comply with this section by imprinting on its future billings: "Finance charges are computed at 18% per annum of the balance to which the arrow points."

An example of what compliance might entail is shown on page 20. It would involve no change in business procedures, but would require that management tell consumers what it must now tell the computer about how to figure finance charges. Noteworthy is the amount of information this statement supplies the consumer. The four corners offer four alternatives.

Consumer Advisory Council Recommendation (cont'd) - Revolving Credit

2. ". . .when credit is extended on revolving credit, open-end credit, or plans other than credit, each contract shall include:

a. a clear statement in writing, prior to any agreement to extend such credit, setting forth the simple annual nominal percentage rate at which the finance charge will be imposed, and

b. a clear statement in writing, at the end of each month (which need not be a calendar month) following the date of the contract, setting forth:

(1) the outstanding balance in the account as of the beginning of the month,

(2) the amount of each extension of credit (including the cash price or delivered price of any property or service) during such period, together with the date thereof and brief identification of any property or services so acquired,

(3) the total amount credited to the account during the period,

(4) the amount or amounts on which the finance charge will be based and the time period for each amount if other than one month,

(5) the simple, nominal annual percentage rate at which the finance charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in one year,

(6) the finance charge in dollars and cents required for such period, and

(7) the outstanding balance in the account at the end of the month.

Comparable sub-sections of S.5 - Revolving Credit
90th Congress

Section 4. (b) Any creditor agreeing to extend credit to any person pursuant to a revolving or open-end credit plan shall, in accordance with rules and regulations prescribed by the Board

(1) furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the following information:

(i) the periodic dates of the balances against which a finance charge will be imposed;

(ii) the percentage rate per period of the finance charge to be imposed; and

(iii) the periodic rate of finance charge expressed as an annual percentage rate.

(2) furnish to such person, as of the end of each period following the entering into of any such agreement, a clear statement in writing setting forth to the extent applicable and ascertainable—

(A) the outstanding balance in the account of such person as of the beginning of such period;

(B) the amount of each extension of credit to such person (including the cash price or delivered price of any property or service acquired by such person) during such period and, unless previously furnished, the date thereof and a brief identification of any property or services so acquired;

(C) the total amount received from, or credited to the account of, such person during such period;

(D) the outstanding unpaid balance in the account of such person as of the end of such period;

(E) the annual percentage rate used to compute the finance charge for such period;

(F) the balance on which the periodic finance charge was computed; and

(G) the finance charge (in dollars and cents) imposed for such period.

As used in this subsection, the term "revolving or open-end credit plan" means a credit plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be computed on the outstanding unpaid balance from time to time thereunder.

Insert - Between Pages 18 and 19

Truth in Lending
Pamphlet No. 17
Council on Consumer Information

Dear Reader:

Senator Proxmire's "Truth in Lending Bill", introduced in the 90th Congress, 1st Session. S. 5, is a modification of S.2275 (89th Congress) and S.750 (88th Congress) reflecting the recommendations of the Consumer Advisory Council's First Report (October, 1963) and the standards for full disclosure established by the Department of Defense for servicemen.

Insert pages have been prepared to facilitate direct comparison of S.5 with the Consumer Advisory Council's recommendations and S.750.

Richard L. D. Morse
January 12, 1967

Department of Family Economics
Justin Hall
Kansas State University
Manhattan, Kansas 66502

Comparable sub-section of S.750 (cont'd) - Revolving Credit
88th Congress

Section 4. (b) Any creditor agreeing to extend credit to any person pursuant to a revolving or open-end credit plan shall, in accordance with rules and regulations prescribed by the Board and in lieu of the information described in subsection (a) -
(1) furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed;[1] and
(2) furnish to such person, at the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear statement in writing setting forth-[2]

(A) the outstanding balance in the account of such person as of the beginning of such monthly period;

(B) the amount of each extension of credit to such person (including the cash price or delivered price of any property or service acquired by such person) during such period, together with[3] the date thereof and a brief identification of any property or services so acquired;

(C) the total amount received from, or credited to the account of, such person during such period;

(D) the finance charge (in dollars and cents) required for such period;

(E) the outstanding balance in the account of such person as of the end of such monthly period; and

(F) the simple annual percentage rate of rates[4] providing a yield equal to the finance charge imposed.

As used in this subsection, the term "revolving or open-end credit plan" means[5] a credit plan under which the total amount of credit to be utilized, the dollar amount of the finance charge to be assessed, and the amounts and times of repayment are not specified at the time an agreement to extend credit pursuant to such plan is entered into.

---

[1] S. 2275 inserts: "on the monthly balance"

[2] S. 2275 inserts: "to the extent applicable and ascertainable"

[3] S. 2275 substitutes for "together with," "and unless previously furnished"

[4] S. 2275 completes the sentence by substituting "at which a finance charge has been imposed on the monthly balance"

[5] Modified slightly in S. 2275.

This interpretation of how the simple annual rate might be disclosed conforms with the interpretation Senator Douglas has given to Section 4 (b) of S. 750 (11, p. 1407). Opponents, however, have construed this section to mean that computation of the effective rate on the average daily balance would be required. This, of course, would be extremely laborious and impractical. Some also object that the merchant would be required to tell the consumer in advance, even before anyone knew when the customer was going to pay on the account, exactly how much the credit would cost.

Inconsistencies in Present Practices

For a preliminary study of the actual practices of stores, a sample six-month billing, as shown page 22, was devised. It was submitted to a local store of a national chain which had advertised boldly the simplicity of its revolving charge account plan. The credit manager repeatedly refused to figure it, saying that it would be against management policy to comply with the request. A follow-up request, mailed to the store's regional credit office was forwarded to the corporation's national credit executive. The executive's reply consisted of a three-page letter and a partially completed form. He said he could not complete question #3 and that an experienced clerk in his office had worked for a total of seven hours arriving at a variety of rates ranging from 0 to less than 10% depending on various assumptions. He concluded his letter:

> (1) The 1 1/2% service charge is not equivalent to 18% per annum. (2) A simple annual rate cannot be computed in advance, but only after the expiration of a full one-year period, and (3) even after the expiration of the one-year period, the computation of a

This statement tells the consumer "everything" except the service charge rate and the balance to which it is applied. This could be supplied by printing on the face of the form:

"Monthly service charge is 1 1/2% (18% per year) of the previous balance."

REVOLVING CREDIT PROBLEM

Date		Description	Charges	Payments or Credit	Balance
Jan	1	Balance Forward			$ 0.00
	4	Sale	10.00		10.00
	7	Sale	20.00		30.00
	9	Return		10.00	20.00
	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*
	12	Sale	80.00		
Feb	1	Sale	40.00		
	3	Payment		20.00	
	9	Return		30.00	
	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*
	12	Payment		60.00	
	14	Sale	40.00		
	16	Return		40.00	
March	2	Payment		20.00	
	9	Sale	50.00		
	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*
	14	Payment		10.00	
	18	Sale	10.00		
April	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*
	14	Payment		10.00	
	18	Sale	10.00		
May	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*
	14	Payment		10.00	
	18	Sale	10.00		
June	10	Service Charge*	( )*		( )*
	10	Billing Date			
	11	Service Charge*	( )*		( )*

* Cross out the bracketed space not used.

1. Show the Service Charges and Balances at each Billing Date.

2. What is the Total of Service Charges on this Account? $ _____

3. What is the Service Charge Rate? ( )% ( )% per annum.

4. Circle each Monthly Balance used to calculate the Service Charge.

5. Retailer _____ _____ _____
(Name of Business) (City or Town) (State)
Descriptive literature will be appreciated.

6. Name of Interviewer _____

simple annual rate is only complicated and time consuming, but does not convey information which is of value to the customer.

Thus, the system obviously was not as simple as this store had advertised it to be. Methods of figuring service charges were too complex not only for local management to understand and relay to customers who wanted to know how it would work in practice, but for national offices to interpret in terms of an annual percentage rate of service charge. ....If the recommendations of the first Consumer Advisory Council prevail, consumer and local store management would be supplied with as imformative instructions as are now fed into the data processing and billing machines in regional and industrial offices.

Considerable variation in credit charges results from stores using different bases and from lack of accurate information on the part of clerks and customers. This is the current situation as shown by the variety of charges reported for nineteen stores from over eight states. The same six-month account shown on page 22 was applied in each case, and the results are given on page 24.

The cost estimates ranged from $2.13 to $6.20. Some of these differences may have resulted from poor communication between the store and customer. Yet, all of the customers were either college graduates or professional credit clerks, and presumably would be able to communicate better than the average consumer. Other differences result from the different methods of selecting the base to which the identical service charge rate was applied. Note particularly the difference between stores F and G, which cannot be dismissed as poor communication at the local

Results of Revolving Credit Problem

Retailer Location	Reported by	Total Charges	Rate per month	Base
Virginia	Clerk or customer	$2.32	1 1/2	"Previous month's unpaid balance after deducting current month's payment"
"	"	4.46	1 1/2	"Previous month's balance"
"	"	5.43	1 1/2	-
Illinois	"	refused	1 1/2	"Service charge is 1 1/2% of unpaid balance at cut off or billing date"
"	"	6.20	1 1/2	"On the balance each month'
New Jersey	"	5.66	1 1/2	"One penny and a half for each dollar of previous month's balance"
Oklahoma	Credit clerk	2.30	1 1/2	-
"	"	4.15	1 1/2	-
"	"	5.42	1 1/2	-
Kansas	"	2.74	1 1/2	-
"	"	3.66	1 1/2	-
Texas	"	2.74	1 1/2	-
"	"	5.22	1 1/2	-
"	"	4.46	1 1/2	-
Missouri	"	4.65	1 1/2	-
"	"	2.13	1 1/2	-
"	"	5.43	1 1/2	-
U.S. chain "F"	Vice-Pres.	2.74	1 1/2	"Opening balance of monthly account unless paid within 30 days"
U.S. chain "G"	gen. credit manager	2.28	1 1/2	"Previous (months ending) balance after payment and credits have been deducted"

Source: Informal survey by Richard L. D. Morse.

Note: 1. The periodic rate is the same for all stores.

2. Charges for the same service range from $2.13 to $6.20.

3. Even slightly different methods of computing service charges may result in significant differences. If the initial balance of Stores G and F had been $100, and each month $90 was paid and $90 charged, the service charge after one year at store G would have been $1.95 and $19.57 at Store F or 904% higher. The service charge for the year, expressed as a percent of the opening and approximate annual average balance, would be about 2% for Store G and 20% for Store F.

retail store level, since the reports are both from executives. This difference of 46¢ results from different policies at the national level. One deducts for payments made during the month and the other does not. Furthermore, as related in the footnote to the table, much greater differences could result if the sample billing were appropriately adjusted to favor one store policy over the other.

The Kiplinger Magazine Changing Times in a June 1965 article entitled, "What It Costs to Say Charge It" discusses three methods of figuring service charges. These and three other methods have been applied to the six-month billing shown on page 22. The results are summarized in the table on pages 26-27. Costs range from $2.28 to $5.44.

Thus, unless the base is uniformly defined, stores will continue to adjust their billing methods to accommodate their merchandising and accounting methods and customer responses. The same rate quotation now results in different costs. This situation could continue even under the CAC type of recommendation which does not fix the base and leaves the creditor free to designate it on the billing as the amount on which the finance charge is based together with the annual rate used to compute the charge. Customers, supplied this information, could recalculate and verify their previous accounts or anticipate accurately service charges predicated on anticipated activity of the account.

REVOLVING CREDIT ACCOUNT METHODS

1½% per month (18% per year) applied to a standardized six-month account

Method	Month (a)	Previous balance (b)	Credits: Payments (c)	Credits: Returns (d)	Charges (e)	Balance before service charge (f) = b-c-d+e	Service charge (g)	Closing balance (h) = f+g
Method I:								
No option.	Jan.	-----	-----	$10.00	$30.00	$20.00	$0.30	$20.30
Service charge, 1½% of	Feb.	$20.30	$20.00	30.00	120.00	90.30	1.35	91.65
current balance at end	Mar.	91.65	80.00	40.00	90.00	61.65	.93	62.58
of month.	Apr.	62.58	10.00	-----	10.00	62.58	.94	63.52
(g) = 1½%(f)	May	63.52	10.00	-----	10.00	63.52	.95	64.47
	June	64.47	10.00	-----	10.00	64.47	.97	65.44
						Total =	$5.44	
Method II:								
30-day option.	Jan.	-----	-----	10.00	30.00	20.00	----	20.00
Service charge, 1½% of	Feb.	20.00	20.00	30.00	120.00	90.00	----	90.00
previous month's ending	Mar.	90.00	80.00	40.00	90.00	60.00	----	60.00
balance less payments	Apr.	60.00	10.00	-----	10.00	60.00	.75	60.75
and returns.	May	60.75	10.00	-----	10.00	60.75	.76	61.51
(g) = 1½%(b-c-d) if	June	61.51	10.00	-----	10.00	61.51	.77	62.28
(b)> (c+d)						Total =	$2.28	
Method III:								
No option.	Jan.	-----	-----	10.00	30.00	20.00	----	20.00
Service charge, 1½% of	Feb.	20.00	20.00	30.00	120.00	90.00	.30	90.30
previous month's ending	Mar.	90.30	80.00	40.00	90.00	60.30	1.35	61.65
balance.	Apr.	61.65	10.00	-----	10.00	61.65	.93	62.58
(g) = 1½%(b)	May	62.58	10.00	-----	10.00	62.58	.94	63.52
	June	63.52	10.00	-----	10.00	63.52	.95	64.47
						Total =	$4.47	
Method IV:								
30-day option.	Jan.	-----	-----	$10.00	$30.00	$20.00	----	$20.00
Service charge, 1½% of	Feb.	$20.00	$20.00	30.00	120.00	90.00	----	90.00
previous month's ending	Mar.	90.00	80.00	40.00	90.00	60.00	----	60.00
balance.	Apr.	60.00	10.00	-----	10.00	60.00	$0.90	60.90
(g) = 1½%(b) if b>(c+d)	May	60.90	10.00	-----	10.00	60.90	.91	61.81
	June	61.81	10.00	-----	10.00	61.81	.93	62.74
						Total =	$2.74	
Method V:								
30-day option.	Jan.	-----	-----	10.00	30.00	20.00	----	20.00
Service charge, 1½% of	Feb.	20.00	20.00	30.00	120.00	90.00	----	90.00
previous month's ending	Mar.	90.00	80.00	40.00	90.00	60.00	1.35	61.35
balance unless paid in	Apr.	61.35	10.00	-----	10.00	61.35	.92	62.27
full. ("All or none").	May	62.27	10.00	-----	10.00	62.27	.94	63.21
(g) = 1½%(b) if (b)>(c)	June	63.21	10.00	-----	10.00	63.21	.95	64.16
						Total =	$4.16	
Method VI:								
30-day option.	Jan.	-----	-----	10.00	30.00	20.00	----	20.00
Service charge, 1½% of	Feb.	20.00	20.00	30.00	120.00	90.00	----	90.00
previous month's ending	Mar.	90.00	80.00	40.00	90.00	60.00	.15	60.15
balance less payments	Apr.	60.15	10.00	-----	10.00	60.15	.75	60.90
(but not returns).	May	60.90	10.00	-----	10.00	60.90	.76	61.66
(g) = 1½%(b-c) if (b)>(c)	June	61.66	10.00	-----	10.00	61.66	.77	62.43
						Total =	$2.43	

"Time-Price" vs "Interest"

The consumer is inclined to consider all credit charges as interest, and why not? The historic time-price doctrine that preserves this legal distinction is peculiarly protective of certain trade customs. In proper legal terms, the consumers' position runs like this: The consumer who is lacking in ready cash to make full payment turns to credit to bridge the cash gap if he wants goods or services now for which he does not have cash, rather than wait until later when funds are available. Lacking the cash he has two major alternatives: (1) Borrow the cash needed from a lending institution which is legally authorized to make cash loans and to charge interest, or (2) Agree to pay a price higher than the cash price for the privilege of spreading the payments out over time. The merchant of credit is a credit vendor who does not charge interest but a finance charge or time-price differential, which is the difference between the cash price and the time price.

It is essential for a proper understanding of credit terminology that the time-price doctrine be amplified. This was done so interestingly and succinctly by Mr. Mitchell, Attorney for Sears, Roebuck and Co., in his testimony at Hearings on the Truth-in-Lending Bill, that sections of his testimony are quoted at length:

> This legislative bill (Truth-in-Lending) deals with two subjects which do not mix--the sale of goods and the loan of money. Customers are not borrowers; they are buyers, with a free choice of two prices. The difference in the systems of selling goods and lending money makes it impossible to apply to the former the methods of computing interest on the latter. (8, p. 998)

He cited an example of a price quotation: "We show there a gas stove, $149.95. When we sell that stove on the instalment plan, we fix a different price, $174.95, so the sale is for a different price". Mr. Mitchell then related the classic case of Beet vs. Bitgood establishing the time-price doctrine.

> It was decided by the Court of the King's Bench in 1818. It involved the sale of a plantation in the West Indies.
>
> The owner, Mr. Bitgood, fixed a price of 16,000 pounds sterling for the plantation, the land, the buildings, the growing crops; the whole affair.
>
> Along came Mr. Beet, who was ready to buy, and Beet said, "Well, look, the price is all right, 16,000 sterling, but I have not got 16,000 sterling, and what I would like to do is pay 4,000 sterling now and the balance of it over a term of 3 years."
>
> Bitgood stepped to one side. He said right away, "Well, that is not satisfactory. I would not sell it for 16,000 sterling on that basis. If you want to buy it that way the price is 20,000 sterling."
>
> The sale was made, the deed passed, the papers were signed, and the buyer went into possession....He made the downpayment, and he made the first annual payment. Then he refused to pay any more on the ground that the Statute of the Fourth Year of Queen Anne provided that the maximum rate of interest which could be charged was 8 percent per annum, and a lawsuit ensued.

The buyer defended on the basis that he was being charged more interest than 8 percent per annum. The court of Queen Anne had no trouble with this. They said the baroness conceded the transaction completely. It was a sale for a higher price, not a sale for 16,000 sterling with the interest on the unpaid balance. (8, pp. 998-9)

Tynan Smith and Robert W. Johnson, writing on the cost of instalment credit to the consumer for the Federal Reserve Board study of Consumer Instalment Credit, said:

> In the purchase of consumer goods on an instalment contract, the difference between the "time price" and the "cash price" represents the cost to the consumer for the privilege of buying on credit. Similarly, for a personal instalment loan at a financial institution, the difference between the amount the consumer receives and the amount he pays back represents the cost to him of the use of the funds. Legally, the difference between the "time" and "cash" price is not regarded as interest by most courts, while the finance charge on a personal loan, excluding certain allowable fees and insurance charges, is regarded as interest. This distinction is important from the standpoint of avoiding conflict with usury laws, but it has little economic significance. (12, p. 48)

Although the distinction between interest and charges for time payment is not of economic significance, the protection it provides credit merchants must be recognized if for no other reason than to understand their objections to standardizing terms for disclosure of consumer credit costs and rates, regardless of the form of consumer credit.

It is appropriate to bear in mind that under the "time price doctrine" merchants have escaped regulations applied to money lenders. As the credit executive, previously quoted on page 21, wrote:

> I think that it is a mistake to talk about a monthly or annual rate in connection with revolving credit accounts. The 1 1/2% figure is simply a convenient way for us to compute the 'time price' at which we agree to sell merchandise to a customer who wishes to pay over a period of time rather than immediately.

In your author's judgment the applicability of the time-price doctrine is vulnerable since the base balance on which the service charge is figured may include not only previously purchased goods and services which may be said to have had a "cash" and "credit" price, but also previously incurred service charges which cannot be said to have had a "cash" and "credit" price. Thus, as in compound interest, there is a compounding of service charges.

Another distinctive difference between the recommendations of the Consumer Advisory Council and the Truth-in-Lending bill (S. 750, but not S. 2275) is that the bill permits disclosure of the rate or rates at which the finance charge will be imposed. Multiple rates are not useful to a consumer in making direct comparisons in shopping for credit and may be misleading because special skill is needed to blend step rates into a single nominal annual rate equivalent. This is discussed fully in Pamphlet No. 18. The CAC provides for disclosure of only this one figure.

Dollars or Rates? Quote the most attractive!

There has been serious objection to the disclosure of the simple annual rate by most of the finance industry. The voluminous Truth-in-Lending Hearings reveal many reasons, such as: Simple interest is too complicated to compute. ...There is a variety of methods for computing the rate. ... Any method that is accurate would be too complicated for the store clerk. ...A book the size of a New York telephone directory would be required if the rates were to be tabulated. ...The rates cannot be determined because one never can predict (despite the contract terms) when the customer will pay. ...Any approximate method cannot be heralded as fulfilling the requirement to tell the consumer the truth.

These cannot be taken as serious arguments. They reflect misinformation, incompetence, or attempts to divert attention from the basic issues. Other expressions of concern, however, merit discussion:

1. "Consumers would be shocked if they knew what annual rate they are paying. Rate quotations in excess of 6% might cause consumers to hesitate to buy on credit with disastrous effect on the economy." Dr. George Katona introduced this concern in his statement in 1960 on S. 2755 (7, pp. 809-810). Since that time, however, there has been more information disseminated about consumer credit and rates of charge. So the shock effect of rate disclosure might be expected to be less serious now than in 1960.

2. "Consumers understand dollars but not percentages, thus use of percentages in any form may be misleading in effect." This is difficult to accept when percentages are so widely used in advertising for savings. Furthermore, when the

dollars are expressed as "dollars per hundred per year", as the Kansas Bankers Association has resolved it will urge its member bankers to employ (11, p. 1329), then one may wonder why this rate expression is so very different from percent per annum. Of course, since the dollar rate is per hundred of the beginning balance of the loan and not per hundred of credit used by the consumer, a much more favorable rate can be quoted.

Both the savings and credit institutions tend to employ that method of rate quotation which makes them look most favorable to the consumer. This image is enhanced if bankers use rates on instalment savings accounts, and dollars on instalment credit accounts. For example, let us look at the financial facts. In Pamphlet 18 there is a table which shows that 11 monthly payments of $8.33 and $8.37 the last month, with interest at 12% compounded monthly, will retire a $100 note and cost $6.50 in interest or accumulate $100 plus $6.73 interest. Is it not reasonable that these facts might appear more attractive...

to savers--if the advertisement stressed the 12% earnings rate rather than the $6.73 earned?

to borrowers--if the advertisement stressed the $6.50 dollar cost rather than the $12% note?

And, if rate were disclosed, 1% per month would appear more favorable than 12% in attracting credit customers, and reversed for attracting savings.

Therefore, credit institutions may be expected to resist disclosure of the annual rate and claim dollar rate disclosure to be adequate. Similar resistance could be anticipated from savings

ASSOCIATION NAME AND CITY OF HOME OFFICE (LISTED IN ORDER OF SIZE OF TOTAL SAVINGS)	COMING			GOING	STAYING	
	1. CURRENT ANNUAL INTEREST RATE	2. DO FUNDS RECEIVED BY THE 10TH EARN FROM THE 1ST?	3. DO YOU EARN INTEREST FROM THE DAY FUNDS ARE RECEIVED WHEN HELD TO THE END OF A QUARTER?	4. CAN YOU GET FULL INTEREST TO THE VERY DAY YOU WITHDRAW FUNDS AFTER SIX MONTHS?	5. HOW OFTEN DO THEY COMPOUND INTEREST?	6. HOW MUCH YOUR SAVINGS ACTUALLY EARN IN A YEAR
AMERICAN SAVINGS OF CALIFORNIA* SAN FRANCISCO	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
CITIZENS FEDERAL SAVINGS SAN FRANCISCO	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
FIRST SAVINGS OAKLAND	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
GUARANTY SAVINGS SAN JOSE	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
S.F. FEDERAL SAVINGS SAN FRANCISCO	4.85%*	YES	NO	NO	4 TIMES Quarterly	4.94%
SECURITY SAVINGS SAN FRANCISCO	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
EUREKA FEDERAL SAVINGS SAN FRANCISCO	4.85%	YES	NO	NO	4 TIMES Quarterly	4.94%
LYTTON SAVINGS PALO ALTO	4.85%	YES	YES	YES	365 TIMES Daily	4.97%
BAY VIEW FEDERAL SAVINGS SAN FRANCISCO	4.85%*	YES	NO	NO	4 TIMES Quarterly	4.94%
FRESNO GUARANTEE SAVINGS FRESNO	4.85%**	YES	YES	NO	4 TIMES Quarterly	4.94%

*EFFECTIVE JANUARY 1, 1965 **EFFECTIVE APRIL 1, 1965 ALL DATA AS OF END OF FOURTH QUARTER, 1964. CALCULATIONS CARRIED THREE DECIMAL PLACES AND ROUNDED OFF.

These savings associations are alike in three major respects: ■ They are the biggest in savings in Northern California ■ They all offer insured safety on savings accounts ■ They are all excellent places to save. They do differ, however, in one major way: ■ They are not equally profitable for you. It's easy to see where Lytton Savings gives you more... coming, going and staying!

COMING: Columns one and two are easy to understand. Column three, however, shows that nine of the associations do not give you interest from the day your funds are received. Your funds wait until the first of the next month to start earning interest. Not so at Lytton. We pay interest from the day funds are received... Worth coming to Lytton for.

GOING: Column four shows that when you take money out, nine of the associations only pay you the interest you have earned if you withdraw at their convenience... which is no more than four times a year! You can lose a lot of interest this way! But Lytton Savings gives you more. We pay you all the interest you have earned to the exact day of withdrawal, when your funds have been in the association for six months. Worth going to Lytton for!

STAYING: What happens when you leave your funds for a full year with any of these 10 largest associations in Northern California? Check columns five and six. It shows that because we compound interest daily... 365 times a year... you receive a big 4.97% when our current annual rate of 4.85% is compounded daily and maintained for a year! Now that's worth staying for!

All things considered, it's easy to see where you do make more... coming, going and staying, at Lytton Savings and Loan Association of Northern California.

You'll find the Lytton Savings' home office at University and Emerson, Palo Alto, 326-0602. Our branch office is at 5050 Broadway, Oakland, 652-8401. Obviously you really should find us. Now shouldn't you!

Funds received or postmarked by the 12th of April earn from the first of April.

institutions to any suggestion that they cease advertising the annual rate and show only dollars per hundred earned on $100 saved in monthly instalments--an unheard of suggestion. In fact the emphasis savings institutions are giving to the effective rather than the nominal rates indicates the temptation to expose the most favorable image and points up the need to standardize terms. The advertisement exhibited on page 34 not only dramatizes the two rates, but demonstrates that financial institutions are capable of disclosing annual rates, figuring interest daily, and allowing deferred and irregular payments.

3. "Disclosure of both dollars and rates would result in confusion for the consumer." Dr. Johnson, student of the finance industry, has challenged the validity of this author's method of teaching students to inquire as to the dollar cost, dollar monthly payments and the simple nominal annual rates. "Introduction of a second price system in the form of percentages hinders, rather than aids, the consumer's decisions. ...Clearly, the only valid measure of value is the total time price as mirrored in the monthly dollar payment." (3, p. 8) His position runs contrary to that of textbook writers, consumer finance teachers, home economists, and specialists in many state Cooperative Extension Services, who have stressed the importance of consumers knowing the simple annual rate, and in most cases have supplied formulas to assist in computing the "true" annual rate. It also runs contrary to Dr. Johnson's own position when he was writing for a consumer-oriented publication. (7, p. 617-620)

1/This is further developed in Morse's Letter to the Editor (5)

4. "It is impossible" say critics, "to quote both the dollar cost and the rate." Actually, it is not only possible, but done. The Federal Housing Administration's Guide for Home Buyers and Owners quotes monthly payments, total cost and interest rate. Quoted is the rate equivalent of their traditional dollar discount quotation.

5. Finally, some critics claim it is impossible and impractical to be truthful. They say approximate methods, such as the constant ratio method, are not designed to give the true rate, and simple interest is not so simple. In answer, the true rate (per period) must be understood as expressing the ratio of the cost of credit to the amount of credit extended for the period of time. When expressed per $100 of principal it is a percentage rate. And it is an annual percentage rate when the periodic rate is multiplied by the number of such periods in a year. The Consumer Advisory Council reinforced this concept by adding the words "simple" (as opposed to "compound") and "nominal" (as opposed to "effective"). However, both become superfluous if the annual percentage rate is properly interpreted and used as it customarily is by savings institutions, credit unions, and real estate lending agencies. Also it is consistent with the annuity or actuarial method upon which the recent Department of Defense Directive table is based. The table gives the true annual rate readings within 1/4% point at the lower rates and 1 1/2% at the higher rates. For greater accuracy, tables published by highly respected financial publishing companies are available. If payments are irregular, the given rate payment program can be used to custom-make an amortization schedule which will give the precise dollar cost. Thus it is possible and practical to tell the truth.

Summary

What do consumers need to know to make intelligent credit decisions? How can this information be clearly presented?

For efficient shopping, the consumer needs standardized information so that he can make price comparisons; standardized as "price per gallon" or rate per hundred per annum. For responsible buymanship, the consumer needs to know how much an article or service will cost and when payments are expected. That is, a consumer doesn't say "fill'er up" even if gas is cheap per gallon, if a tank full will take more cash than he is able to pay. Likewise, a wise consumer does not use more credit service than he can pay for. The consumer must know both the rate and dollar cost of the credit transaction.

Most consumer educational materials emphasize the nominal annual rate for two reasons: (1) It simplifies comparative shopping. (2) If the rate is known, the cost can be figured. Since most dealers are unable or unwilling to disclose the annual rate, the burden of computing it falls upon the consumer.

The legal distinction between "time-price-differential" and interest has not only permitted charging rates much higher than the legal usury rates, but has encouraged a departure from money lending to credit via instalment selling.

Dealers tend to quote credit in its most attractive form: Nominal annual rates are quoted to attract savings, and the dollar cost rate is quoted on instalment contracts (often, erroneously, as a percent).

Rates are almost universally used in finance, as any reader of financial pages knows. Dollars are unique to each contract, but rates can always be quoted. Dollar costs are sometimes difficult to compute. For example, the cost of open-end or revolving credit is impossible to determine without first predicting exactly when charges and payments will be made. Even then, as the example shows, there is considerable latitude in interpretation.

The major recommendation is, therefore, that the annual rate be disclosed in all cases. On fixed contracts, where the unpaid balances are pre-determined, the credit cost and payment schedule can and should also be shown. In revolving or open-end credit, both the actual balances to which the annual rate is applied, and the credit charge itself can and should be designated on each monthly or periodic statement.

Complaints about the difficulty of computing costs for contract credit are not legitimate. Give a seventh grade teacher the nominal annual rate and the terms of repayment of principal, and both she and most of her students will be able to figure the cost. But give her a three-step rate problem, a dollar-add on or discount with irregular payments scheduled, or a contract termination involving the application of the rule of 78ths, and both she and her students will give up in despair!!

The nominal monthly annual rate has worked for generations. Credit unions have thrived on this simple method and their volunteer, untrained officers have not found it too complicated. The small loan companies grew rapidly under this system. It can continue to work, yielding meaningful and useful information for all. The Department of Defense Directive table has the potential of making the annual percentage rate functional for civilians as well as the military in the consumer market.

References

1. Consumer Advisory Council, First Report, Executive Office of the President, U. S. Covernment Printing Office, Washington, D. C., October 1963.

2. Consumer Reports, October, 1964, Vol. 29, No. 10, Consumers Union of U. S., Inc., 256 Washington St., Mount Vernon, New York, 10550.

3. Johnson, Robert W., Letter to the Editor, "Quoting Credit Terms", Personal Finance Law Quarterly Report, Vol. 18, No. 1, Winter 1963.

4. Juster F. Thomas, and Shay, Robert P., Consumer Sensitivity to Finance Rates: An Empirical and Analytical Investigation, National Bureau of Economic Research, New York, 1964.

5. Morse, R. L. D., Letter To the Editor, Personal Finance Law Quarterly Report, Vol. 17, No. 4, Fall 1963.

6. Morse and Courter, "Are Credit Terms Quoted Accurately?" Personal Finance Law Quarterly, Vol. 17, No. 4, Fall 1963; Consumer Finance News, Vol. 18, No. 4, October 1963: Credit Union Executive, Vol. 2, No. 4, Winter 1963.

7. U. S. Congress, Senate, Subcommittee of the Committee on Banking and Currency, Hearings on S. 2755 Consumer Credit Labeling Bill, 86th Congress, 2nd Session, 1960.

8. U. S. Congress, Senate, Subcommittee of the Committee on Banking and Currency, Hearings on S. 1740 Truth in Lending Bill, 87th Congress, First Session, 1961.

9. U. S. Congress, Senate, Subcommittee of the Committee on Banking and Currency, Hearings on S. 1740 Truth in Lending Bill, 87th Congress, Second Session, 1962.

10. U. S. Congress, Senate, Subcommittee of the Committee on Banking and Currency, Hearings on S. 750 Truth in Lending Bill, Part 1, 88th Congress, 1st. Session., 1963-1964.

11. U. S. Congress, Senate, Subcommittee of the Committee on Banking and Currency, Hearings on S. 750 Truth in Lending Bill, Part 2, 88th Congress, first and second Session, 1963-1964.

12. U. S. Federal Reserve Board, Consumer Instalment Credit, Part 1, Vol. I., Board of Governors of the Federal Reserve System, Washington, D. C., 1957.

13. Redeker, Norma J., Credit Quotation Accuracy, Unpublished Masters Thesis, Kansas State University, Library, Manhattan, Kansas, 1964.

14. U. S. Department of Defense, DoD Directive 1344.7, "Personal Commercial Affairs," May 2, 1966.

15. Armed Forces Information and Education, Department of Defense, Credit: Master or Servant?, Superintendent of Documents, U. S. Government Printing Office, Washington, D. C., July 25, 1966.

APPENDIX A

Department of Defense Directive
1344.7
May 2, 1966

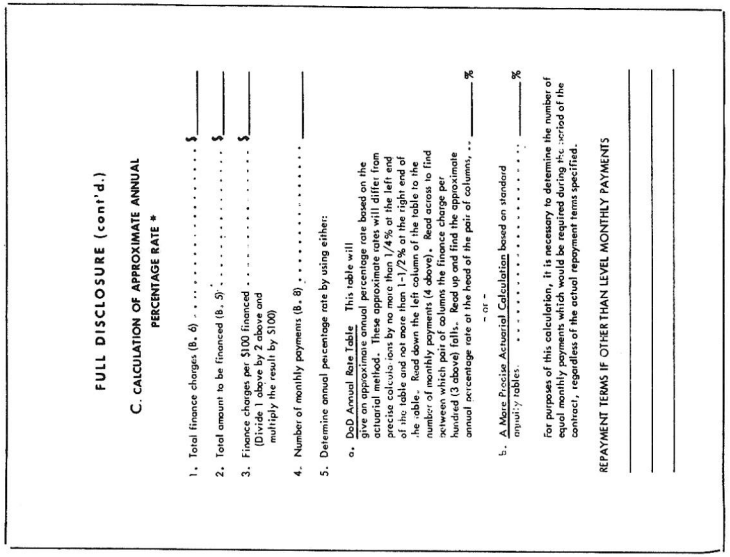
The contents of this Appendix are from the DoD Directive and reprinted in Credit: Master or Servant? (DoD PA - 10).

This is an official Department of Defense publication issued for the use of personnel in the military Service.

Copies of this 52 page Armed Forces Information and Education pamphlet are for sale by the

Superintendent of Documents
U. S. Government Printing Office
Washington, D. C. 20402

Price - 25¢

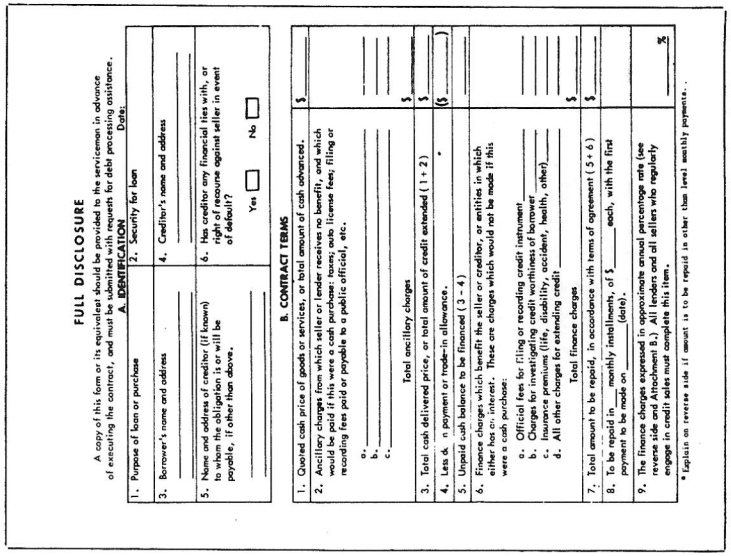


FULL DISCLOSURE (cont'd.)

C. CALCULATION OF APPROXIMATE ANNUAL PERCENTAGE RATE *

1. Total finance charges (8. 6) . . . . . $_____
2. Total amount to be financed (8. 5) . . . . . $_____
3. Finance charges per $100 financed . . . . . $_____
(Divide 1 above by 2 above and multiply the result by $100)
4. Number of monthly payments (8. 8) . . . . . _____
5. Determine annual percentage rate by using either:
a. DoD Annual Rate Table. This table will give an approximate annual percentage rate based on the actuarial method. These approximate rates will differ from precise calculations by no more than 1/4% at the left end of the table and not more than 1-1/2% at the right end of the table. Read down the left column of the table to the number of monthly payments (4 above). Read across to find between which pair of columns the finance charge per hundred (3 above) falls. Read up and find the approximate annual percentage rate at the head of the pair of columns. . _____%
– or –
b. A More Precise Actuarial Calculation based on standard annuity tables . . . . . _____%
For purposes of this calculation, it is necessary to determine the number of equal monthly payments which would be required during the period of the contract, regardless of the actual repayment terms specified.

REPAYMENT TERMS IF OTHER THAN LEVEL MONTHLY PAYMENTS



FULL DISCLOSURE

A copy of this form or its equivalent should be provided to the serviceman in advance of executing the contract, and must be submitted with requests for debt processing assistance.

Date:

A. IDENTIFICATION

1. Purpose of loan or purchase
2. Security for loan
3. Borrower's name and address
4. Creditor's name and address
5. Name and address of creditor (if known) to whom the obligation is or will be payable, if other than above.
6. Has creditor any financial ties with, or right of recourse against seller in event of default? Yes ☐ No ☐

B. CONTRACT TERMS

1. Quoted cash price of goods or services, or total amount of cash advanced. $_____
2. Ancillary charges from which seller or lender receives no benefit, and which would be paid if this were a cash purchase: taxes; auto license fees; filing or recording fees paid or payable to a public official, etc.
a._____ _____
b._____ _____
c._____ _____
Total ancillary charges $_____
3. Total cash delivered price, or total amount of credit extended (1 + 2) $_____
4. Less down payment or trade-in allowance. ($_____)
5. Unpaid cash balance to be financed (3 – 4) _____
6. Finance charges which benefit the seller or creditor, or entities in which either has an interest. These are charges which would not be made if this were a cash purchase:
a. Official fees for filing or recording credit instrument _____
b. Charges for investigating credit worthiness of borrower _____
c. Insurance premiums (life, disability, accident, health, other) _____
d. All other charges for extending credit _____
Total finance charges $_____
7. Total amount to be repaid, in accordance with terms of agreement (5 + 6) $_____
8. To be repaid in ____ monthly installments, of $_____ each, with the first payment to be made on _____ (date).
9. The finance charges expressed in approximate annual percentage rate (see reverse side and Attachment 8.) All lenders and all sellers who regularly engage in credit sales must complete this item. _____%

* Explain on reverse side if amount is to be repaid in other than level monthly payments.

Ibid. pp. 14-5.

DEPARTMENT OF DEFENSE TABLE FOR COMPUTING APPROXIMATE ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

The table contained on the following pages can help you find, for comparison purposes, the approximate annual rate of the finance charge on a loan or credit transaction which is to be repaid with level monthly payments. To use it, you need only know (1) the total amount to be financed, or borrowed, (2) the finance charge, and (3) the number of monthly installments.

The example below shows how to use the table in two easy steps.

Total amount to be financed	$250
Finance charge	$38
Number of monthly payments	24

Step 1: Divide the finance charge by the total amount to be financed and multiply by $100.

$$\$38 \div \$250 \times \$100 = \$15.20$$

Step 2: Follow down the left-hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of $15.20 falls. In this example, $15.20 falls between $14.66 and $15.80. Reading up between the two columns of figures you will see that the annual percentage rate is 14%. The annual percentage rate is approximately the rate appearing at the head of the two columns between which the finance charge per $100 of the total amount to be financed falls. (If the finance charge per hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Ibid. pp. 42-3.

Number of level monthly payments	Approximate annual rate											
	5%	5½%	6%	6½%	7%	7½%	8%	9%	10%	11%	12%	13%
	(Finance charge per $100 of balance to be financed)											
1	$0.40	$0.44	$0.48	$0.52	$0.56	$0.60	$0.65	$0.71	$0.79	$0.88	$0.96	$1.04	$1.12
2	.59	.66	.72	.78	.84	.91	.97	1.06	1.19	1.31	1.44	1.57	1.69
3	.79	.88	.96	1.04	1.13	1.21	1.29	1.42	1.59	1.76	1.92	2.09	2.26
4	.99	1.10	1.20	1.31	1.41	1.51	1.62	1.78	1.99	2.20	2.41	2.62	2.83
5	1.19	1.32	1.44	1.57	1.69	1.82	1.95	2.13	2.39	2.64	2.89	3.15	3.40
6	1.39	1.54	1.68	1.83	1.98	2.13	2.27	2.49	2.79	3.08	3.38	3.68	3.97
7	1.59	1.76	1.93	2.09	2.26	2.43	2.60	2.85	3.19	3.53	3.87	4.21	4.55
8	1.79	1.98	2.17	2.36	2.55	2.74	2.93	3.21	3.60	3.98	4.36	4.74	5.13
9	1.99	2.20	2.41	2.62	2.83	3.05	3.26	3.57	4.00	4.43	4.85	5.28	5.71
10	2.19	2.42	2.65	2.89	3.12	3.35	3.59	3.94	4.41	4.88	5.35	5.82	6.29
11	2.39	2.64	2.90	3.15	3.41	3.66	3.92	4.30	4.81	5.33	5.84	6.36	6.88
12	2.59	2.87	3.14	3.42	3.69	3.97	4.25	4.66	5.22	5.78	6.34	6.90	7.46
13	2.79	3.09	3.39	3.68	3.98	4.28	4.58	5.03	5.63	6.23	6.84	7.44	8.05
14	2.99	3.31	3.63	3.95	4.27	4.59	4.91	5.39	6.04	6.69	7.34	7.99	8.64
15	3.20	3.54	3.88	4.22	4.56	4.90	5.24	5.76	6.45	7.14	7.84	8.53	9.23
16	3.40	3.76	4.12	4.48	4.85	5.21	5.58	6.13	6.86	7.60	8.34	9.08	9.83
17	3.60	3.98	4.37	4.75	5.14	5.52	5.91	6.49	7.27	8.06	8.84	9.63	10.43
18	3.80	4.21	4.61	5.02	5.43	5.84	6.25	6.86	7.69	8.52	9.35	10.19	11.03
19	4.01	4.43	4.86	5.29	5.72	6.15	6.58	7.23	8.10	8.98	9.86	10.74	11.63
20	4.21	4.66	5.11	5.56	6.01	6.46	6.92	7.60	8.52	9.44	10.37	11.30	12.23
21	4.41	4.88	5.35	5.83	6.30	6.78	7.26	7.97	8.94	9.90	10.88	11.85	12.84
22	4.62	5.11	5.60	6.10	6.60	7.09	7.59	8.35	9.36	10.37	11.39	12.41	13.44
23	4.82	5.33	5.85	6.37	6.89	7.41	7.93	8.72	9.77	10.84	11.90	12.97	14.05
24	5.02	5.56	6.10	6.64	7.18	7.73	8.27	9.09	10.19	11.30	12.42	13.54	14.66
25	5.23	5.79	6.35	6.91	7.48	8.04	8.61	9.47	10.62	11.77	12.93	14.10	15.28
26	5.43	6.01	6.60	7.18	7.77	8.36	8.95	9.84	11.04	12.24	13.45	14.67	15.89
27	5.64	6.24	6.85	7.46	8.07	8.68	9.29	10.22	11.46	12.71	13.97	15.24	16.51
28	5.84	6.47	7.10	7.73	8.36	9.00	9.64	10.60	11.89	13.18	14.49	15.81	17.13
29	6.05	6.70	7.35	8.00	8.66	9.32	9.98	10.97	12.31	13.66	15.01	16.38	17.75
30	6.25	6.92	7.60	8.28	8.96	9.64	10.32	11.35	12.74	14.13	15.54	16.95	18.38

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

Ibid. pp. 44-5.

Number of level monthly payments	Approximate annual rate											
	5%	5½%	6%	6½%	7%	7½%	8%	9%	10%	11%	12%	13%
	(Finance charge per $100 of balance to be financed)											
31	$6.46	$7.15	$7.85	$8.55	$9.25	$9.96	$10.67	$11.73	$13.17	$14.61	$16.06	$17.53	$19.00
32	6.66	7.38	8.10	8.82	9.55	10.28	11.01	12.11	13.59	15.09	16.59	18.11	19.63
33	6.87	7.61	8.35	9.10	9.85	10.60	11.36	12.49	14.02	15.57	17.12	18.69	20.26
34	7.08	7.84	8.61	9.37	10.15	10.92	11.70	12.88	14.45	16.05	17.65	19.27	20.90
35	7.28	8.07	8.86	9.65	10.45	11.25	12.05	13.26	14.89	16.53	18.18	19.85	21.53
36	7.49	8.30	9.11	9.93	10.75	11.57	12.40	13.64	15.32	17.01	18.71	20.43	22.17
37	7.70	8.53	9.37	10.20	11.05	11.89	12.74	14.03	15.75	17.49	19.25	21.02	22.81
38	7.91	8.76	9.62	10.48	11.35	12.22	13.09	14.41	16.19	17.98	19.78	21.61	23.45
39	8.11	8.99	9.87	10.76	11.65	12.54	13.44	14.80	16.62	18.46	20.32	22.20	24.09
40	8.32	9.22	10.13	11.04	11.95	12.87	13.79	15.19	17.06	18.95	20.86	22.79	24.73
41	8.53	9.45	10.38	11.32	12.25	13.20	14.14	15.57	17.50	19.44	21.40	23.38	25.38
42	8.74	9.69	10.64	11.60	12.56	13.52	14.50	15.96	17.94	19.93	21.94	23.98	26.03
43	8.95	9.92	10.89	11.87	12.86	13.85	14.85	16.35	18.38	20.42	22.49	24.57	26.68
44	9.16	10.15	11.15	12.15	13.16	14.18	15.20	16.74	18.82	20.91	23.03	25.17	27.33
45	9.37	10.38	11.41	12.44	13.47	14.51	15.55	17.13	19.26	21.41	23.58	25.77	27.99
46	9.58	10.62	11.66	12.72	13.77	14.84	15.91	17.53	19.70	21.90	24.13	26.37	28.65
47	9.79	10.85	11.92	13.00	14.08	15.17	16.26	17.92	20.15	22.40	24.68	26.98	29.31
48	10.00	11.09	12.18	13.28	14.39	15.50	16.62	18.31	20.59	22.90	25.23	27.58	29.97
49	10.21	11.32	12.44	13.56	14.69	15.83	16.98	18.71	21.04	23.39	25.78	28.19	30.63
50	10.42	11.55	12.70	13.84	15.00	16.16	17.33	19.10	21.48	23.89	26.33	28.80	31.29
51	10.63	11.79	12.95	14.13	15.31	16.50	17.69	19.50	21.93	24.40	26.89	29.41	31.96
52	10.84	12.02	13.21	14.41	15.62	16.83	18.05	19.89	22.38	24.90	27.45	30.02	32.63
53	11.05	12.26	13.47	14.69	15.92	17.16	18.41	20.29	22.83	25.40	28.00	30.64	33.30
54	11.26	12.49	13.73	14.98	16.23	17.50	18.77	20.69	23.28	25.91	28.56	31.25	33.98
55	11.48	12.73	13.99	15.26	16.54	17.83	19.13	21.09	23.73	26.41	29.13	31.87	34.65
56	11.69	12.97	14.25	15.55	16.85	18.17	19.49	21.49	24.19	26.92	29.69	32.49	35.33
57	11.90	13.20	14.52	15.84	17.17	18.50	19.85	21.89	24.64	27.43	30.25	33.11	36.01
58	12.11	13.44	14.78	16.12	17.48	18.84	20.21	22.29	25.10	27.94	30.82	33.74	36.69
59	12.33	13.68	15.04	16.41	17.79	19.18	20.58	22.70	25.55	28.45	31.39	34.36	37.37
60	12.54	13.92	15.30	16.70	18.10	19.52	20.94	23.10	26.01	28.96	31.96	34.99	38.06

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

Ibid. pp. 48-9.

Number of level monthly payments	Approximate annual rate											
	14%	15%	16%	18%	20%	22%	24%	26%	28%	30%	33%	36%
	Finance charge per $100 of balance to be financed)											
1	$1.12	$1.21	$1.29	$1.42	$1.58	$1.75	$1.92	$2.08	$2.25	$2.42	$2.62	$2.88	$3.12
2	1.69	1.82	1.94	2.13	2.38	2.63	2.88	3.14	3.39	3.64	3.95	4.33	4.71
3	2.26	2.43	2.59	2.85	3.18	3.52	3.86	4.20	4.53	4.87	5.30	5.80	6.31
4	2.83	3.04	3.25	3.57	3.99	4.41	4.84	5.26	5.69	6.11	6.65	7.29	7.93
5	3.40	3.65	3.91	4.29	4.80	5.31	5.82	6.34	6.85	7.37	8.01	8.79	9.57
6	3.97	4.27	4.57	5.02	5.61	6.21	6.81	7.42	8.02	8.63	9.39	10.30	11.22
7	4.55	4.89	5.23	5.75	6.43	7.12	7.81	8.51	9.20	9.90	10.77	11.83	12.88
8	5.13	5.51	5.90	6.48	7.26	8.03	8.82	9.60	10.39	11.18	12.17	13.36	14.57
9	5.71	6.14	6.57	7.22	8.08	8.95	9.83	10.70	11.58	12.47	13.58	14.92	16.27
10	6.29	6.77	7.24	7.96	8.91	9.88	10.84	11.81	12.79	13.77	15.00	16.48	17.98
11	6.88	7.40	7.92	8.70	9.75	10.80	11.86	12.93	14.00	15.08	16.43	18.06	19.71
12	7.46	8.03	8.59	9.45	10.59	11.74	12.89	14.05	15.22	16.40	17.87	19.66	21.46
13	8.05	8.66	9.27	10.20	11.43	12.67	13.93	15.18	16.45	17.72	19.33	21.26	23.22
14	8.64	9.30	9.96	10.95	12.28	13.62	14.97	16.32	17.69	19.06	20.79	22.88	25.00
15	9.23	9.94	10.64	11.71	13.13	14.57	16.01	17.47	18.93	20.41	22.27	24.52	26.79
16	9.83	10.58	11.33	12.46	13.99	15.52	17.06	18.62	20.19	21.76	23.75	26.16	28.60
17	10.43	11.22	12.02	13.23	14.85	16.48	18.12	19.78	21.45	23.13	25.25	27.82	30.42
18	11.03	11.87	12.72	13.99	15.71	17.44	19.19	20.95	22.72	24.51	26.76	29.50	32.26
19	11.63	12.52	13.41	14.76	16.58	18.41	20.26	22.12	24.00	25.89	28.28	31.18	34.12
20	12.23	13.17	14.11	15.54	17.45	19.38	21.33	23.30	25.28	27.29	29.81	32.88	35.99
21	12.84	13.82	14.82	16.31	18.33	20.36	22.41	24.49	26.58	28.69	31.36	34.60	37.88
22	13.44	14.48	15.52	17.09	19.21	21.34	23.50	25.68	27.88	30.10	32.91	36.32	39.78
23	14.05	15.14	16.23	17.88	20.09	22.33	24.60	26.88	29.19	31.53	34.48	38.06	41.70
24	14.66	15.80	16.94	18.66	20.98	23.33	25.70	28.09	30.51	32.96	36.05	39.81	43.63
25	15.28	16.46	17.65	19.45	21.87	24.32	26.80	29.31	31.84	34.40	37.64	41.58	45.58
26	15.89	17.13	18.37	20.24	22.77	25.33	27.91	30.53	33.18	35.85	39.23	43.36	47.54
27	16.51	17.80	19.09	21.04	23.67	26.34	29.03	31.76	34.52	37.31	40.84	45.15	49.52
28	17.13	18.47	19.81	21.84	24.58	27.35	30.15	33.00	35.87	38.78	42.46	46.95	51.51
29	17.75	19.14	20.53	22.64	25.49	28.37	31.28	34.24	37.23	40.26	44.09	48.77	53.52
30	18.38	19.81	21.26	23.45	26.40	29.39	32.42	35.49	38.60	41.75	45.73	50.60	55.54

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

Ibid. pp. 46-7.

Number of level monthly payments	Approximate annual rate											
	14%	15%	16%	18%	20%	22%	24%	26%	28%	30%	33%	36%
	(Finance charge per $100 of balance to be financed)											
31	$19.00	$20.49	$21.99	$24.26	$27.32	$30.42	$33.56	$36.75	$39.97	$43.24	$47.38	$52.44	$57.58
32	19.63	21.17	22.72	25.07	28.24	31.45	34.71	38.01	41.36	44.75	49.05	54.29	59.63
33	20.26	21.85	23.46	25.88	29.16	32.49	35.86	39.28	42.75	46.26	50.72	56.16	61.70
34	20.90	22.54	24.19	26.70	30.09	33.53	37.02	40.56	44.15	47.79	52.40	58.04	63.78
35	21.53	23.23	24.94	27.52	31.02	34.58	38.18	41.84	45.56	49.32	54.09	59.93	65.87
36	22.17	23.92	25.68	28.35	31.96	35.63	39.35	43.14	46.97	50.86	55.80	61.83	67.98
37	22.81	24.61	26.42	29.18	32.90	36.69	40.53	44.43	48.39	52.41	57.51	63.75	70.11
38	23.45	25.30	27.17	30.01	33.85	37.75	41.71	45.74	49.82	53.97	59.24	65.68	72.25
39	24.09	26.00	27.92	30.85	34.80	38.82	42.90	47.05	51.26	55.54	60.97	67.62	74.40
40	24.73	26.70	28.68	31.68	35.75	39.89	44.09	48.37	52.71	57.12	62.72	69.57	76.56
41	25.38	27.40	29.44	32.52	36.71	40.96	45.29	49.69	54.16	58.70	64.47	71.53	78.74
42	26.03	28.10	30.19	33.37	37.67	42.05	46.50	51.03	55.63	60.30	66.24	73.51	80.94
43	26.68	28.81	30.96	34.22	38.63	43.13	47.71	52.36	57.09	61.90	68.01	75.50	83.14
44	27.33	29.52	31.72	35.07	39.60	44.22	48.93	53.71	58.57	63.51	69.80	77.50	85.36
45	27.99	30.23	32.49	35.92	40.58	45.32	50.15	55.06	60.06	65.13	71.60	79.51	87.60
46	28.65	30.94	33.26	36.78	41.55	46.42	51.38	56.42	61.55	66.76	73.40	81.53	89.85
47	29.31	31.66	34.03	37.64	42.54	47.53	52.61	57.78	63.05	68.40	75.22	83.57	92.11
48	29.97	32.37	34.81	38.50	43.52	48.64	53.85	59.15	64.56	70.05	77.04	85.61	94.38
49	30.63	33.09	35.59	39.37	44.51	49.75	55.09	60.53	66.07	71.70	78.88	87.67	96.67
50	31.29	33.82	36.37	40.24	45.50	50.87	56.34	61.92	67.59	73.37	80.72	89.74	98.96
51	31.96	34.54	37.15	41.11	46.50	51.99	57.60	63.31	69.12	75.04	82.58	91.82	101.28
52	32.63	35.27	37.94	41.99	47.50	53.12	58.86	64.70	70.66	76.72	84.44	93.91	103.60
53	33.30	36.00	38.72	42.87	48.50	54.26	60.12	66.11	72.20	78.41	86.31	96.01	105.94
54	33.98	36.73	39.52	43.75	49.51	55.39	61.40	67.52	73.75	80.10	88.19	98.13	108.29
55	34.65	37.46	40.31	44.64	50.52	56.54	62.67	68.93	75.31	81.81	90.09	100.25	110.65
56	35.33	38.20	41.11	45.53	51.54	57.68	63.96	70.36	76.88	83.52	91.99	102.38	113.02
57	36.01	38.94	41.91	46.42	52.56	58.84	65.25	71.78	78.45	85.24	93.90	104.53	115.41
58	36.69	39.68	42.71	47.32	53.58	59.99	66.54	73.22	80.03	86.97	95.82	106.68	117.81
59	37.37	40.42	43.51	48.21	54.61	61.15	67.84	74.66	81.62	88.71	97.75	108.85	120.22
60	38.06	41.17	44.32	49.12	55.64	62.32	69.14	76.11	83.21	90.45	99.68	111.03	122.64

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

Ibid. pp. 50-1.

PAMPHLETS OF THE COUNCIL ON CONSUMER INFORMATION

° 1. Consumers Look at Farm Price Policies. By Walter W. Wilcox. 38 pages. May, 1954.
° 2. Consumers Look at Fair Trade. By William Haller, Jr. 38 pages. May, 1955.
3. What You Should Know About the Law of Estates. By Leland J. Gordon and L. James Gordon, 20 pages, July, 1955.
4. Helping You Plan Your Life Insurance Program. By Charles E. Rogers and Marguerite C. Burk, 36 pages. January, 1956.
5. Consumers Look at Burial Practices. By Allen Earnshaw Backman, 38 pages. April, 1956.
6. Consumers Look at Antitrust Laws. By Jules Joskow and Irwin M. Stelzer, 31 pages. April, 1957.
° 7. Watch Your Weights and Measures. By Leland J. Gordon, 34 pages. April, 1957.
8. Bringing the Consumer Point of View Into Government. By Persia Campbell, 29 pages. January, 1958.
° 9. Consumers Look at Discount Houses. By Stewart M. Lee, 32 pages. October, 1958.
°10. Consumers Look at Federal Protective Services. By Monroe W. Karmin, 40 pages. January, 1959.
°11. Consumers Can Protect Their Own Health. By Dr. Harold Aaron, 34 pages. February, 1960.
°12. How to Choose Your Doctor, Hospital, Health Insurance. By Dr. Harold Aaron, 32 pages. May, 1961.
°13. The Consumer Looks at Deceptive Packaging. By Clinton L. Warne, 36 pages. August, 1961.
14. A Guide for Family Financial Counseling. By Charles V. Neal, Jr., 34 pages. October, 1962.
°15. Consumers Look at Labels. By Jessie V. Coles, 55 pages. January, 1964.
16. Shopping for Credit. By Richard L. D. Morse, 51 pages. 1966.
17. Truth-In-Lending. By Richard L. D. Morse, 47 pages. 1966.

°Pamphlets not for sale - out of print.

Quantity Rates

Single Copy	50¢ each
3 to 9 Copies	45¢ each
10 to 99 Copies	40¢ each
100 or more Copies	35¢ each

MEMBERSHIP INFORMATION

Regular Membership, $6.00
Student Membership, $2.00
Contributing Membership, $10.00
Life Membership, $100.00

THE COUNCIL ON CONSUMER INFORMATION
Edward J. Metzen, Executive Secretary
15 Gwynn Hall
University of Missouri
Columbia, Missouri 65201

About the Author

The author of this Consumer Credit series has been Professor and Head of the Department of Family Economics at Kansas State University since 1955.

He is president of the Kansas Home Economics Association, past president of the Council on Consumer Information, past chairman of the Consumer Interests Committee of the Florida, Kansas, and American Home Economics Association, chairman of the consumer credit committee of President Kennedy's Consumer Advisory Council, former consultant to Mrs. Esther Peterson, Special Assistant to the President for Consumer Affairs, member of President's Committee on Consumer Interest, and former board member of the Kansas Credit Union League.

He has testified twice in support of "Truth-in-Lending" and is consultant to the Assistant Secretary of the Treasury on consumer credit disclosure.

He is a member of the American Economic Association, American Statistical Association, American Association for the Advancement of Science, American Home Economics Association and American Association of University Professors.

The Library
Ball State University
Muncie, Indiana

HG 3755.M626 gen
Truth in lending,
3 0000 062 968 007
The Ball State University Libraries

TN 2060967
1

HG 3755
M626